



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Lake Stevens Sewer District

For the period January 1, 2021 through December 31, 2021

Published January 3, 2023

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**Office of the Washington State Auditor
Pat McCarthy**

January 3, 2023

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, Washington

Report on Financial Statements

Please find attached our report on the Lake Stevens Sewer District's financial statements.

We are issuing this report in order to provide information on the District's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Lake Stevens Sewer District January 1, 2021 through December 31, 2021

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lake Stevens Sewer District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy, State Auditor

Olympia, WA

December 22, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Lake Stevens Sewer District January 1, 2021 through December 31, 2021

Board of Commissioners
Lake Stevens Sewer District
Lake Stevens, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Lake Stevens Sewer District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Lake Stevens Sewer District, as of December 31, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters of Emphasis

As discussed in Note 11 to the financial statements, the full extent of the COVID-19 pandemic's direct and indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting

or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 22, 2022

FINANCIAL SECTION

Lake Stevens Sewer District January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Proportionate Share of the Net Pension Liability/(Asset) – PERS 1,
PERS 2/3 – 2021

Schedules of Employer Contributions – PERS 1, PERS 2/3 – 2021

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

INTRODUCTION

Lake Stevens Sewer District was formed in 1957 for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which include the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens.

Our mission is meeting the challenge of protecting the environment and providing quality sewer service to the community.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2021 and our financial performance for the year then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position presents the results of the District's business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate our profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

Overview of the Financial Statements (Continued)

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31			
		2021	2020
Capital Assets		\$ 161,371,326	\$ 161,651,716
Other Assets		29,889,652	27,076,139
Total Assets		191,260,978	188,727,855
Deferred Outflows of Resources		1,317,818	1,650,964
Long-Term Liabilities		59,329,180	70,701,123
Other Liabilities		7,987,207	7,762,478
Total Liabilities		67,316,387	78,463,601
Deferred Inflows of Resources		2,307,561	229,884
Net Investment in Capital Assets		97,698,360	89,281,470
Restricted Amounts		7,927,647	9,390,288
Unrestricted Amounts		17,328,841	13,013,576
Total Net Position		\$ 122,954,848	\$ 111,685,334

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

Overview of the Financial Statements (Continued)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES			
IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31			
		2021	2020
Utility Operating Revenue		\$ 15,012,527	\$ 14,463,887
Total Operating Revenues		15,012,527	14,463,887
Operating Expenses		6,940,835	6,081,310
Depreciation		6,744,309	6,549,179
Total Operating Expenses		13,685,144	12,630,489
Operating Income		1,327,383	1,833,398
Nonoperating Revenue (Expense):			
Interest		84,298	308,018
Rental Income		29,226	28,810
Interest and Amortization		(1,570,410)	(1,785,723)
Gain (Loss) on Disposal of Assets		(25,469)	(708)
Income (Loss) Before Capital Contributions		(154,972)	383,795
Capital Contributions		11,424,486	7,032,655
Increase in Net Position		11,269,514	7,416,450
Net Position - January 1		111,685,334	104,268,884
Net Position - December 31		<u>\$ 122,954,848</u>	<u>\$ 111,685,334</u>

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

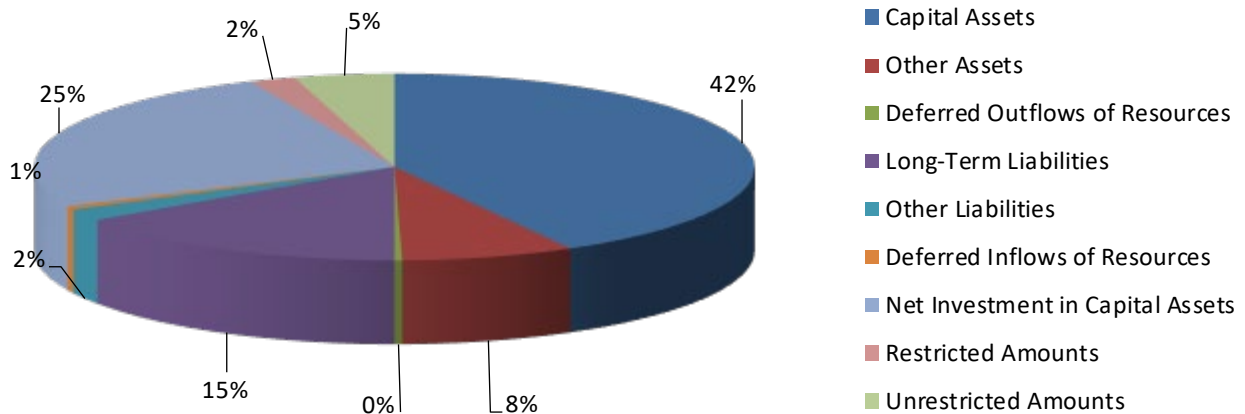
FINANCIAL POSITION

The District's overall financial position improved in 2021 due to profitable operations and substantial developer contributions.

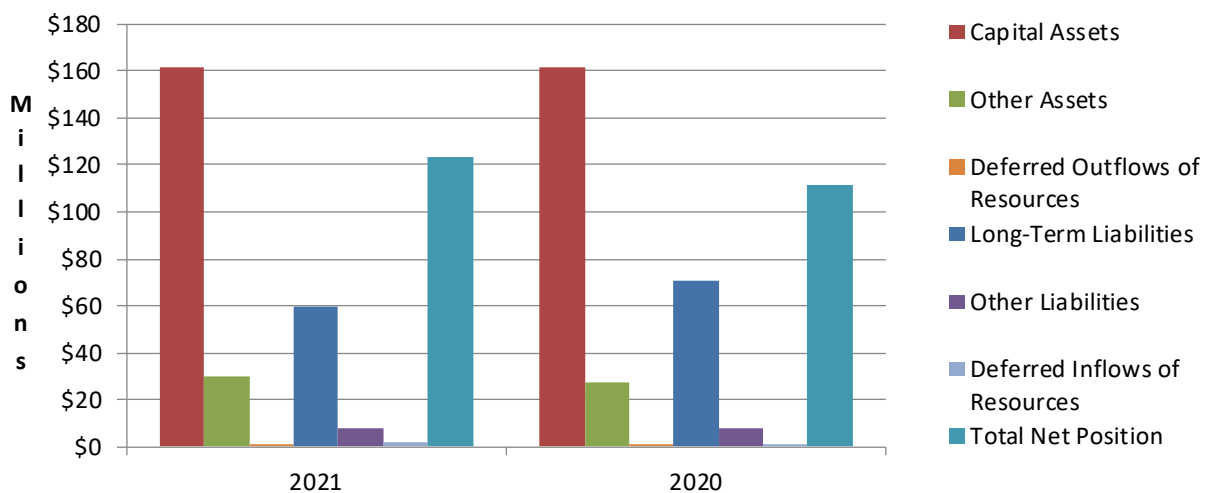
The District is financed by long-term debt and substantial equity. Sufficient liquid assets are available to fund liabilities and construction. Capital assets increased in 2021 as new connections were added to the sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

The following charts indicate the components of financial position:

2021 Statement of Net Position



Comparative Statement of Net Position

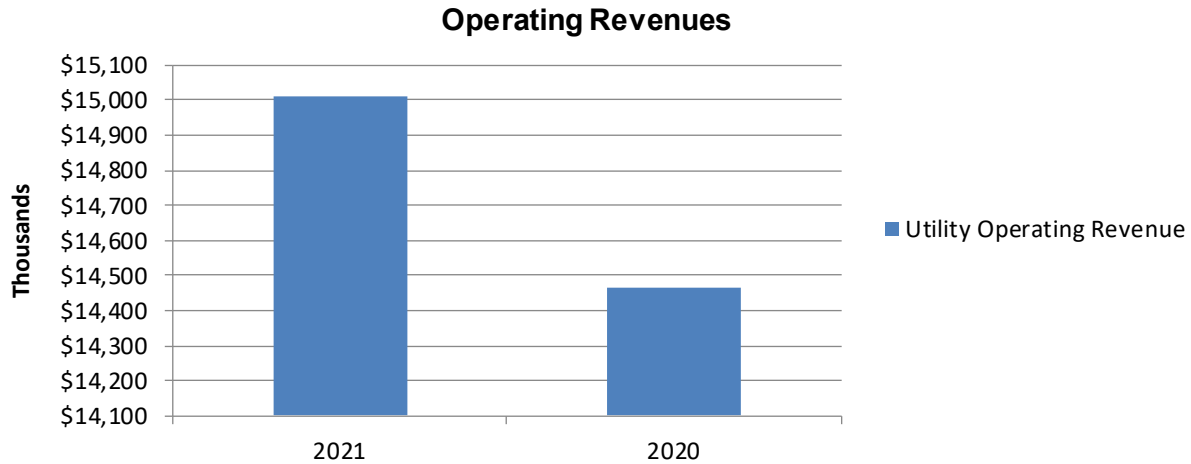


**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

RESULTS OF OPERATIONS

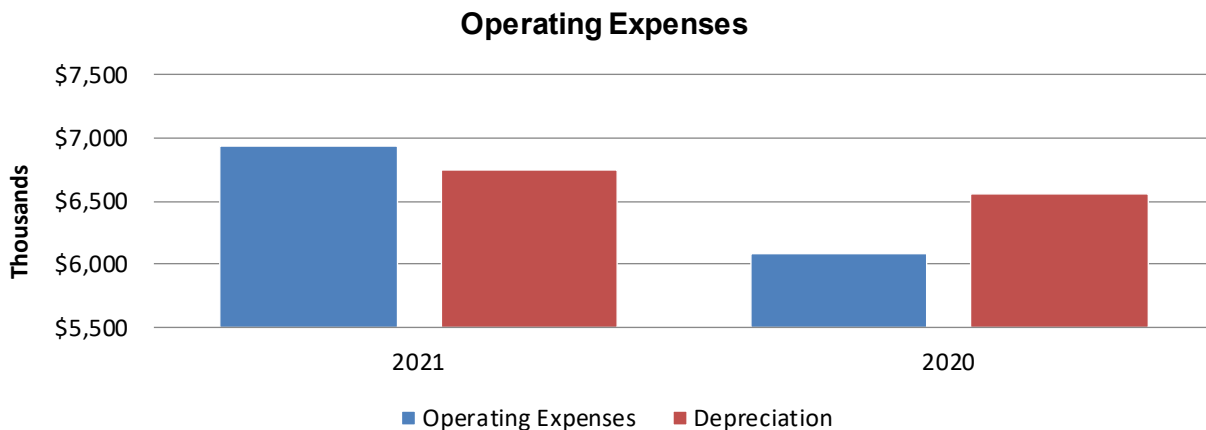
Operating revenues are received from providing sewer services.

The following chart indicates operating revenue over the last two years:



Operating revenue increased in 2021 due to and increases in the number of customers. There was also an increase in 2021 as school and commercial accounts returned after the 2020 pandemic and sewer service for these accounts increased. The residential growth of the District has been steady since 2017 when there was a change in city planning for future infrastructure and developers laid the groundwork for future growth.

The following chart indicates operating expenses over the last two years:



Operating expenses increased in 2021 due to increases in personnel costs, repairs for the treatment plant band screens and flygt pump, and an increase in professional fees.

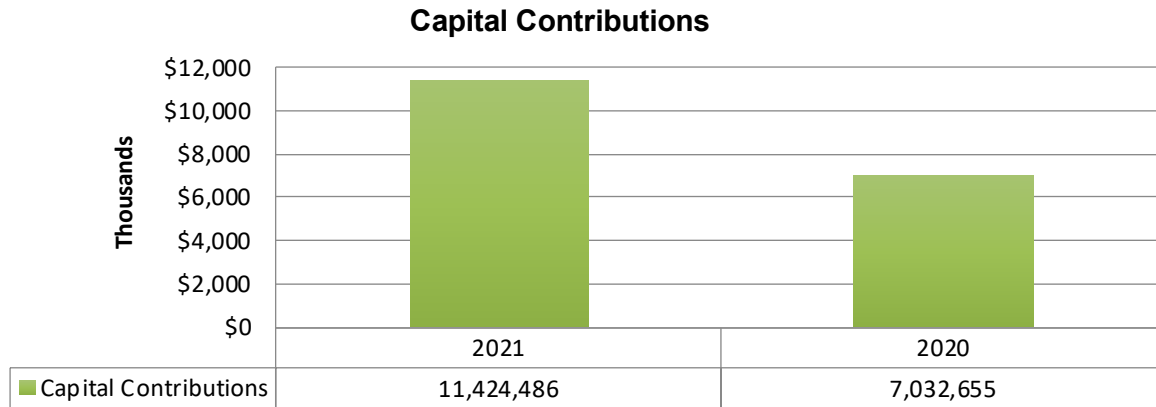
RESULTS OF OPERATIONS (CONTINUED)

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

The District operated at a profit in 2021 and 2020. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

The following chart indicates capital contributions over the last three years:



These contributions are indicative of the growth of the District. They include donated systems totaling \$5,098,500 and \$3,650,148 for the years ended December 31, 2021 and 2020, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2021 as new connections were added to the sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

Significant capital asset additions during the years included the following:

2021	
Vactor/Decant Facility	\$ 615,049
Lift Station 2C	78,872
Lift Station 22 Odor Control	125,306
SR204 SR9 Intersection	56,926
Sewer Comprehensive Plan	286,328
Donated Systems	5,098,500

**LAKE STEVENS SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

The decrease in long-term liabilities in 2021 was due to principal payments made by the District, including \$4,715,516 in principal payments above what was currently due, and decreases in pension liabilities primarily due to differences between projected and actual earning on pension plan investments in the underlying plans.

See Notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term debt.

ADDITIONAL COMMENTS

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23rd day of May 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate, and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City. See Note 10 for additional information.

**LAKE STEVENS SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

ASSETS		
CURRENT ASSETS		
Unrestricted:		
Cash and Cash Equivalents		\$ 20,359,214
Accounts Receivable		1,545,558
Interest Receivable		23,257
Prepayments		33,976
Total Unrestricted Assets		21,962,005
Restricted:		
Cash and Cash Equivalents		5,639,463
Interest Receivable		29,544
Assessments Receivable		16,519
Total Restricted Assets		5,685,526
Total Current Assets		27,647,531
NONCURRENT ASSETS		
Restricted:		
Net Pension Asset		2,242,121
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other		1,052,474
Construction in Progress		1,044,706
Capital Assets Being Depreciated:		
Plant in Service		236,303,263
Less: Accumulated Depreciation		(77,029,117)
Net Capital Assets		161,371,326
Total Noncurrent Assets		163,613,447
Total Assets		191,260,978
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding of Debt		1,030,557
Deferred Outflows Related to Pensions		287,261
Total Deferred Outflows of Resources		1,317,818
Total Assets and Deferred Outflows of Resources		\$ 192,578,796

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2021**

LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable		\$ 424,201
Utility Revenue Billed in Advance		1,248,193
Compensated Absences		238,449
Developer Deposits		102,659
Accrued Interest		270,796
Long-Term Debt - Current Maturities		5,702,909
Total Current Liabilities		<u>7,987,207</u>
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Maturities		58,903,845
Compensated Absences		211,492
Net Pension Liability		213,843
Total Noncurrent Liabilities		<u>59,329,180</u>
Total Liabilities		67,316,387
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		2,307,561
Total Liabilities and Deferred Inflows of Resources		<u>69,623,948</u>
NET POSITION		
Net Investment in Capital Assets		97,698,360
Restricted for Debt Service		5,685,526
Restricted for Pensions		2,242,121
Unrestricted		17,328,841
Total Net Position		<u>122,954,848</u>
Total Liabilities and Deferred Inflows of Resources and Net Position		<u>\$ 192,578,796</u>

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2021**

OPERATING REVENUES		
Utility Revenue		\$ 15,012,527
Total Operating Revenues		15,012,527
OPERATING EXPENSES		
General Operations		5,335,038
Maintenance		892,835
Taxes		712,962
Depreciation		6,744,309
Total Operating Expenses		13,685,144
OPERATING INCOME		1,327,383
NONOPERATING REVENUE (EXPENSE)		
Investment Income		83,901
Rental Income		29,226
Assessment Interest		397
Interest on Long-Term Debt		(1,570,410)
Loss on Disposal of Assets		(25,469)
Total Nonoperating Revenue (Expense)		(1,482,355)
LOSS BEFORE CAPITAL CONTRIBUTIONS		(154,972)
Capital Contributions		11,424,486
CHANGE IN NET POSITION		11,269,514
Net Position - Beginning of Year		111,685,334
NET POSITION - END OF YEAR		<u>\$ 122,954,848</u>

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Other		\$ 15,136,412
Cash Paid to Vendors		(3,545,482)
Cash Paid to and for Employees and Commissioners		(3,829,941)
Net Cash Provided by Operating Activities		7,760,989
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions		6,325,986
Expenditures for Plant in Service and Construction		(1,295,872)
Proceeds from Disposal of Assets		1,753
Collections on ULID Assessments		180
Interest Received on Assessments		33
Principal Paid on Long-Term Debt		(10,272,231)
Interest Paid on Long-Term Debt		(1,863,499)
Net Cash Used by Capital Financing Activities		(7,103,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments		150,927
Net Cash Provided by Investing Activities		150,927
NET INCREASE IN CASH AND CASH EQUIVALENTS		808,266
Cash and Cash Equivalents - Beginning of Year		25,190,411
CASH AND CASH EQUIVALENTS - END OF YEAR		<u>\$ 25,998,677</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents - Current Assets		\$ 20,359,214
Cash and Cash Equivalents - Restricted Current Assets		5,639,463
Total Cash and Cash Equivalents		<u>\$ 25,998,677</u>

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021**

RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income		\$ 1,327,383
Adjustments to Reconcile Income from Operations to Net Cash		
Provided by Operating Activities:		
Depreciation		6,744,309
Rental Income		29,226
(Increase) Decrease in Assets and Deferred		
Outflows of Resources:		
Accounts Receivable		57,491
Prepayments		112,540
Net Pension Asset		(2,242,121)
Deferred Outflows Related to Pensions		(18,381)
Increase (Decrease) in Liabilities and Deferred		
Inflows of Resources:		
Accounts Payable		(48,996)
Utility Revenue Billed in Advance		37,167
Developer Deposits		(10,217)
Compensated Absences		265,906
Net Pension Liability		(570,995)
Deferred Inflows Related to Pensions		2,077,677
Net Cash Provided by Operating Activities		<u>\$ 7,760,989</u>
SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT		
NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received		<u>\$ 5,098,500</u>

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lake Stevens Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was formed in 1957 for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which include the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens. The District is governed by an elected three member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses in the state of Washington Treasurer's Local Government Investment Pool (LGIP) and all long-term reserves in the Snohomish County Investment Pool (SCIP).

For purposes of the Statement of Cash Flows, due to the liquidity and short-term investment policies, the State and County Investment Pools are considered cash equivalents.

Investments

Investments in the state of Washington Treasurer's Local Government Investment Pool (LGIP) are stated at share price that is equal to amortized cost.

Investments in the Snohomish County Investment Pool (SCIP) are stated at fair value. The fair value of the District's investment is determined by calculating the ratio of total investment by pool participants divided into the total fair value of all SCIP underlying assets. The District determines their fair value by taking their investment in the SCIP times this ratio.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. All accounts receivable are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding \$5,000, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant in Service	5 - 50 Years
Buildings	20 - 50 Years
Machinery and Equipment	5 - 20 Years

Pensions

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability or as an addition to the net pension asset in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Compensated Absences

The District accrues accumulated unpaid vacation and sick leave amounts as earned. District employees accumulate vacation and sick hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions, and assets restricted by external creditors (such as through debt covenants), grantors, contributors or others, and deferred outflows of resources related to those assets, reduced by related liabilities, and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing services in connection with the District's sewer system. Operating expenses include the costs associated with providing the District's services and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2021 was \$1,200. The District's bank balances as of December 31, 2021 and 2020 were \$2,297,139.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

In accordance with state law, all investments of the District's funds are obligations of the U.S. Government, U.S. Government Agency issues, certificates of deposit with Washington State Banks, the Washington State Local Investment Pool (LGIP), or the Snohomish County Investment Pool (SCIP).

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

As of December 31, the District had the following investments:

		2021
Local Government Investment Pool		\$ 16,718,591
Snohomish County Investment Pool		6,981,747
Total Investments		<u>\$ 23,700,338</u>

Investments Measured at Amortized Cost

		2021
Local Government Investment Pool		<u>\$ 16,718,591</u>

The District is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the Securities Exchange Commission. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

Investments Measured at Fair Value

		2021
Snohomish County Investment Pool		<u>\$ 6,981,747</u>

Snohomish County Investment Pool

The District is a participant in the Snohomish County Investment Pool (SCIP). The pool is not rated and not registered with the Securities Exchange Commission. Investments are reported at fair value to participants. It includes participating funds from the County's primary government funds from the Districts where the County Treasurer serves as ex-officio treasurer and cities where the County Treasurer is the property tax collector. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in the SCIP. The portion of the Pool belonging to outside districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, certificates of deposit, and securities. Pool participants' shares are based on the dollars that they have invested in the SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and losses for the month. Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive, and Chairman of the County Council. SCFC approves investment policies for SCIP. The SCIP does not impose any restrictions on participant withdrawals.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

The Snohomish County Investment Pool's effective duration was 2.05 years as of December 31, 2021.

NOTE 3 RESTRICTED ASSETS

In accordance with bond resolutions and state revolving fund loan agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, and other special reserve requirements. Restricted accounts at December 31, 2021 include the following:

		Debt Service		
		Reserve		
	Debt Service	Account	PERS 2/3	Total
Current Restricted Assets:				
Cash and Cash Equivalents	\$ 2,452,649	\$ 3,186,814	\$ -	\$ 5,639,463
Interest Receivable	29,544	-	-	29,544
Assessments Receivable	16,519	-	-	16,519
Total	2,498,712	3,186,814	-	5,685,526
Noncurrent Restricted Assets:				
Net Pension Asset	-	-	2,242,121	2,242,121
Total	\$ 2,498,712	\$ 3,186,814	\$ 2,242,121	\$ 7,927,647

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 CONSTRUCTION IN PROGRESS

Construction in progress is composed of the following at December 31, 2021:

	Project	Expended		Required
Project Name	Authorization	12/31/21	Committed	Future Financing
24th St & SR9 Sewer Crossing	\$ 457,911	\$ 91,158	\$ 366,753	None
LS 1C Electrical Update	38,310	1,356	36,954	None
LS 1C Design & CM	176,530	21,405	155,125	None
LS 2C Design & CM	415,580	99,811	315,769	None
LS 2C Force Main & CM	345,030	91,049	253,981	None
Main & 18th St Improvements/20th St NE Business Loop Design & CM	143,860	79,654	64,206	None
LS 18 Pipe Repair	34,922	-	34,922	None
Permeate Piping	4,981	4,981	-	
LS 4C & 6C Predesign	30,000	28,905	1,095	None
LS 4C & 6C Construction 5C Decommissioning	343,000	13,509	329,491	None
Lift Station 22 Odor Control	138,879	138,879	-	None
SR204 SR9 Intersection	60,215	60,215	-	None
City of Lake Stevens Downtown Plan - Pre Design of LS 2C	40,000	26,773	13,227	None
Vehicles	220,000	71,280	148,720	None
2022 Comp Plan	344,843	303,965	40,878	None
CWIP VBC Second Floor Building Improvements	90,170	11,766	78,404	None
Total	<u>\$ 2,884,231</u>	<u>\$ 1,044,706</u>	<u>\$ 1,839,525</u>	

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 5 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows for 2021:

	Balance -			Balance -
	Beginning of			End of
	Year	Increases	Decreases	Year
Capital Assets Not Being				
Depreciated:				
Land	\$ 1,052,474	\$ -	\$ -	\$ 1,052,474
Construction in Progress	1,157,826	1,584,058	(1,697,178)	1,044,706
Total	2,210,300	1,584,058	(1,697,178)	2,097,180
Capital Assets Being				
Depreciated:				
Plant in Service	198,434,598	5,132,732	(27,221)	203,540,109
Buildings	1,672,544	-	-	1,672,544
Machinery, Equipment, and				
Furniture	29,663,935	1,471,529	(44,854)	31,090,610
Total	229,771,077	6,604,261	(72,075)	236,303,263
Accumulated Depreciation:				
Plant in Service	(53,679,899)	(4,583,129)	-	(58,263,028)
Buildings	(325,123)	(37,294)	-	(362,417)
Machinery, Equipment, and				
Furniture	(16,324,640)	(2,123,886)	44,854	(18,403,672)
Total	(70,329,662)	(6,744,309)	44,854	(77,029,117)
Net Capital Assets	<u>\$ 161,651,715</u>	<u>\$ 1,444,010</u>	<u>\$ (1,724,399)</u>	<u>\$ 161,371,326</u>

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 LONG-TERM DEBT

Long-term debt outstanding at December 31, consisted of general obligation and revenue bonds and direct borrowings and direct placements as follows:

Description		2021
General Obligation Bonds:		
\$1,508,553 for capital assets, due serially through the year 2022, with interest payable semi-annually at 4.00 annual percentage rate		\$ 130,000
Revenue Bonds:		
\$19,725,000 for refunding due serially through the year 2032, with interest payable semi-annually at 4.00 to 5.00 annual percentage rates		17,455,000
Total General Obligation and Revenue Bonds		17,585,000
Direct Borrowings and Direct Placements:		
All issued for utility construction and secured by the revenue of the system.		
Public Works Trust Fund Loans:		
\$1,626,040 loan: Payable \$85,691 annually through the year 2022, plus interest at .5 annual percentage rate.		85,691
\$4,083,400 loan: Payable \$216,931 annually through the year 2022, plus interest at .5 annual percentage rate.		216,931
\$1,000,000 loan, payable \$52,632 annually through the year 2025, plus interest at 2.0 annual percentage rate		210,526
\$1,000,000 loan, payable \$52,632 annually through the year 2025, plus interest at .5 annual percentage rate		210,526
\$1,000,000 loan, payable \$53,363 annually through the year 2025, plus interest at .5 annual percentage rate		213,450
\$1,000,000 loan, payable \$52,632 annually through the year 2028, plus interest at .5 annual percentage rate		368,421
\$7,000,000 loan, payable \$409,539 annually through the year 2026, plus interest at .5 annual percentage rate		2,047,697

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Description	2021
\$7,000,000 loan, payable \$395,005 annually through the year 2027, plus interest at .5 annual percentage rate	2,370,031
\$10,000,000 loan, payable \$301,734 annually through the year 2038, plus interest at .5 annual percentage rate	5,129,485
\$10,000,000 loan, payable \$301,734 annually through the year 2038, plus interest at .5 annual percentage rate	5,129,485
State Revolving Fund Loans:	
\$15,800,510 loan: Payable \$538,314 semi-annually through December 2030, including interest at 3.1 annual percentage rate.	8,379,156
\$28,174,634 loan: Payable \$926,933 semi-annually through May 2032, including interest at 2.7 annual percentage rate.	16,838,150
\$4,113,465 loan: Payable \$135,201 semi-annually through August 2036, including interest at 2.7 annual percentage rate.	3,313,465
Total Direct Borrowings and Direct Placements	44,513,014
Total Long-Term Debt	62,098,014
Less: Current Maturities	(5,702,909)
Add: Unamortized Bond (Discounts) Premiums	2,508,740
Total	<u>\$ 58,903,845</u>

In the event of default, the Washington State Department of Ecology may at its sole discretion declare the principal and interest on the State Revolving Fund loan in default immediately due and payable.

Long-term debt service requirements to maturity are as follows:

Year Ending December 31,	General Obligation and Revenue Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2022	\$ 1,370,000	\$ 804,249	\$ 4,332,909	\$ 869,792	\$ 7,376,950
2023	1,305,000	737,049	4,099,409	791,060	6,932,518
2024	1,365,000	671,799	4,170,522	711,851	6,919,172
2025	1,435,000	603,549	4,243,682	630,595	6,912,826
2025	1,505,000	531,799	4,160,323	547,232	6,744,354
2027-2031	8,655,000	1,507,100	17,111,060	1,461,790	28,734,950
2032-2036	1,950,000	78,000	5,188,172	183,554	7,399,726
2037-2038	-	-	1,206,937	9,052	1,215,989
Total	<u>\$ 17,585,000</u>	<u>\$ 4,933,545</u>	<u>\$ 44,513,014</u>	<u>\$ 5,204,926</u>	<u>\$ 72,236,485</u>

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Balance -			Balance -	Amounts
	Beginning			End of	Due Within
	of Year	Additions	Reductions	Year	One Year
<u>2021</u>					
Direct Borrowings and Direct Placements:					
Public Works Trust					
Fund Loans	\$ 17,904,138	\$ -	\$ (1,921,895)	\$ 15,982,243	\$ 1,921,893
State Revolving Fund Loans	35,571,107	-	(7,040,336)	28,530,771	2,411,016
General Obligation Bonds	260,000	-	(130,000)	130,000	130,000
Revenue Bonds	18,635,000	-	(1,180,000)	17,455,000	1,240,000
Bond Premiums	3,083,493	-	(574,753)	2,508,740	-
Compensated Absences	184,035	504,356	(238,450)	449,941	238,449
Net Pension Liability PERS 1	534,383	-	(534,383)	-	-
Net Pension Liability PERS 2/3	250,455	-	(36,612)	213,843	-
Total	<u>\$ 76,422,611</u>	<u>\$ 504,356</u>	<u>\$ (11,656,429)</u>	<u>\$ 65,270,538</u>	<u>\$ 5,941,358</u>

NOTE 8 PENSION PLANS

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2021:

	2021
Pension Liabilities	\$ 213,843
Pension Assets	(2,242,121)
Deferred Outflows of Resources	287,261
Deferred Inflows of Resources	2,307,561
Pension Expense	(451,065)

State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS)

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98540-8380

Or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – The PERS Plan 1 member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Contributions (Continued)

PERS Plan 1 Actual Contribution Rates	Employer	Employee
2021		
January through June		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	12.97 %	6.00 %
July through December		
PERS Plan 1	10.07 %	6.00 %
Administrative Fee	0.18	
Total	10.25 %	6.00 %

The District's actual contributions to the plan were \$113,958 for the year ended December 31, 2021.

PERS Plan 2/3 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 3 – defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of 6 options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
2021			
January through June			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87		
Administrative Fee	0.18		
Total	12.97 %	7.90 %	Varies
July through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	10.25 %	6.36 %	Varies

The District's actual contributions to the plan were \$188,802 for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions between the 2021 and 2020 valuations. There were changes in methods between the 2021 and 2020 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability/(asset) measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability/(asset).

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation. As of June 30, 2021:

		Percent
		Long-Term
		Expected Real
	Target	Rate of Return
	Allocation	Arithmetic
<u>Asset Class</u>		
<u>2021</u>	20 %	2.20 %
Fixed Income	7	5.10
Tangible Assets	18	5.80
Real Estate	32	6.30
Global Equity	23	9.30
Private Equity	100 %	
Total		

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Sensitivity of NPL/(Asset)

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than applicable discount rate.

		Current	
	1% Decrease	Discount Rate	1% Increase
	(6.4%)	(7.4%)	(8.4%)
<u>2021</u>			
PERS 1	\$ 364,294	\$ 213,843	\$ 82,635
PERS 2/3	(638,737)	(2,242,121)	(3,562,508)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2021, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2021):

	Liability (Asset)
	2021
PERS 1	\$ 213,843
PERS 2/3	(2,242,121)
Total	<u>\$ (2,028,278)</u>

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate	Proportionate	Change in
	Share 6/30/20	Share 6/30/21	Proportion
PERS 1	0.015136%	0.017510%	0.002374%
PERS 2/3	0.019583%	0.022508%	0.002925%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Non-employer Allocations*.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Pension Expense

For the year ended December 31, 2021, the District recognized pension expense as follows:

		2021
PERS 1		\$ 44,217
PERS 2/3		(495,282)
Total		<u>\$ (451,065)</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2021</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	237,295
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	40,732	-
Total PERS 1	<u>40,732</u>	<u>237,295</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	108,897	27,486
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	1,873,887
Changes of Assumptions	3,276	159,228
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	64,633	9,665
Contributions Subsequent to the Measurement Date	69,723	-
Total PERS 2/3	<u>246,529</u>	<u>2,070,266</u>
Total All Plans	<u>\$ 287,261</u>	<u>\$ 2,307,561</u>

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 8 PENSION PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or an addition to the net pension asset in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2022	\$ (62,859)	\$ (499,759)
2023	(57,602)	(466,092)
2024	(54,465)	(450,568)
2025	(62,369)	(486,875)
2026	-	1,945
Thereafter	-	7,889
Total	<u>\$ (237,295)</u>	<u>\$ (1,893,460)</u>

NOTE 9 RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 RISK MANAGEMENT (CONTINUED)

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years (2021, 2020, and 2019), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 10 CITY OF LAKE STEVENS AGREEMENT

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23rd day of May 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City in 2033.

As part of this agreement, the District agreed to transfer to the City all funds necessary for the Public Work Trust Fund Loan No. PW-02-691-029 and the City Sewer utility's share of the 1997 General Obligation Bonds. The City has refunded these bonds with the City 2008 GO Bonds.

The agreement also calls for certain payments from the District for a Franchise Fee and a Utility Agreement Fee for the City liabilities or costs associated with the implementation and maintenance of the Agreement. As of the preparation of these financial statements, the District has not yet been charged a Franchise Fee, and the Utility Agreement Fee amounted to \$15,000 for the year ended December 31, 2021.

**LAKE STEVENS SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 10 CITY OF LAKE STEVENS AGREEMENT (CONTINUED)

The City of Lake Stevens City Council passed Ordinance No. 1108 on December 8, 2020. The operative clauses of the Ordinance assumed the full and complete management and control of the entire Lake Stevens Sewer District ninety or more days after its adoption.

The District has filed a lawsuit challenging the legality of the City's Ordinance. The ultimate outcome cannot be determined.

NOTE 11 COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities. The full extent of the financial impact on the District is unknown at this time.

LAKE STEVENS SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET)
PERS 1
AS OF JUNE 30 (MEASUREMENT DATE)
LAST TEN FISCAL YEARS*

PERS 1					
		Employer's		Net Pension	Plan Fiduciary
	Employer's	Proportionate		Liability (Asset)	Net Position as
	Proportion of	Share of the	Employer's	as a Percentage	a Percentage
	the Net Pension	Net Pension	Covered	of Covered	of the Total
Year	Liability (Asset)	Liability (Asset)	Payroll	Payroll	Pension Liability
2021	0.017510%	\$ 213,843	\$ 2,496,781	8.56%	88.74%
2020	0.015136%	534,383	2,133,411	25.05%	68.64%
2019	0.015182%	583,802	2,140,249	27.28%	67.12%
2018	0.015136%	685,982	2,049,879	33.46%	63.22%
2017	0.015618%	741,086	1,969,540	37.63%	61.24%
2016	0.014697%	789,299	1,900,131	41.54%	57.03%
2015	0.015527%	812,207	1,709,572	47.51%	59.10%
Notes to Schedule:					
*Information is presented only for those years for which information is available.					
PERS 2/3					
		Employer's		Net Pension	Plan Fiduciary
	Employer's	Proportionate		Liability (Asset)	Net Position as
	Proportion of	Share of the	Employer's	as a Percentage	a Percentage
	the Net Pension	Net Pension	Covered	of Covered	of the Total
Year	Liability (Asset)	Liability (Asset)	Payroll	Payroll	Pension Liability
2021	0.022508%	\$ (2,242,121)	\$ 2,496,781	-89.80%	120.29%
2020	0.019583%	250,455	2,133,411	11.74%	97.22%
2019	0.019616%	190,538	2,140,249	8.90%	97.77%
2018	0.019597%	334,602	2,049,879	16.32%	95.77%
2017	0.020089%	697,997	1,969,540	35.44%	90.97%
2016	0.018805%	946,817	1,900,131	49.83%	85.82%
2015	0.020055%	716,577	1,709,572	41.92%	89.20%
Notes to Schedule:					
*Information is presented only for those years for which information is available.					

**LAKE STEVENS SEWER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
PERS 2/3
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST TEN FISCAL YEARS***

PERS 1					
		Contributions in			
		Relation to the			Contributions
	Statutorily	Statutorily	Contribution	Employer's	as a Percent
	Required	Required	Deficiency	Covered	of Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2021	\$ 113,958	\$ (113,958)	\$ -	\$ 2,593,629	4.39%
2020	113,426	(113,426)	-	2,396,902	4.73%
2019	109,517	(109,517)	-	2,213,444	4.95%
2018	105,155	(105,155)	-	2,077,112	5.06%
2017	99,963	(99,963)	-	2,041,202	4.90%
2016	90,631	(90,631)	-	1,900,131	4.77%
2015	74,823	(74,823)	-	1,709,572	4.38%
2014	72,116	(72,116)	-	1,788,182	4.03%
2013	56,032	(56,032)	-	1,778,324	3.15%
Notes to Schedule:					
* Information is presented only for those years for which information is available.					
PERS 2/3					
		Contributions in			
		Relation to the			Contributions
	Statutorily	Statutorily	Contribution	Employer's	as a Percent
	Required	Required	Deficiency	Covered	of Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2021	\$ 188,802	\$ (188,802)	\$ -	\$ 2,593,629	7.28%
2020	187,669	(187,669)	-	2,396,902	7.83%
2019	170,810	(170,810)	-	2,213,444	7.72%
2018	155,173	(155,173)	-	2,077,112	7.47%
2017	139,754	(139,754)	-	2,041,202	6.85%
2016	121,795	(121,795)	-	1,900,131	6.41%
2015	99,105	(99,105)	-	1,709,572	5.80%
2014	92,548	(92,548)	-	1,788,182	5.18%
2013	88,633	(88,633)	-	1,778,324	4.98%
Notes to Schedule:					
* Information is presented only for those years for which information is available.					

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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